

Message Text

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SUBJECT: ELEMENTS OF UNCTAD COMMODITY AGREEMENT FOR SISAL

REF: (A) ROME 19077 (B) ROME 16780

BEGIN SUMMARY: THE FOLLOWING CABLE SUMMARIZES A 45-PAGE PAPER ON ELEMENTS OF AN INTEGRATED COMMODITY AGREEMENT FOR SISAL AND HENEQUEN WHICH WILL BE DISCUSSED IN AN UNCTAD MEETING IN GENEVA. SUMMARY HAS BEEN MADE FROM ADVANCE COPY OF PAPER WHICH IS STILL SUBJECT TO EDITING THOUGH IT HAS OVERALL UNCTAD AND FAO APPROVAL. KEY ELEMENTS OF SISAL AGREEMENT ARE INTERNATIONAL BUFFER STOCKS, QUOTAS, AND MAJOR MARKET ADJUSTMENT INVESTMENT TO REDUCE SISAL PRODUCTION 50,000-100,000 TONS. FINANCING TOTALLY \$160-245 MILLION WOULD COME FROM UNCTAD COMMON FUND. END SUMMARY.

1. JOINT FAO/UNCTAD PAPER ON ELEMENTS OF AN INTERNATIONAL AGREEMENT ON SISAL AND HENEQUEN FOR THE UNCTAD PREPARATORY MEETING ON HARD FIBERS IN GENEVA DECEMBER 6-10, 1976 IS SIMILAR TO EARLIER JUTE PAPER, REFTEL (B) IN THAT WHOLE PAPER IS BASED ON LIMITED OFFICIAL USE

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INTERNATIONAL STOCKS SUPPORTED BY A COMMON FUND. HOWEVER,

REST OF PAPER IS MUCH MORE REALISTIC AND IS PRIMARILY AIMED AT HOW TO REDUCE PRESENT EXCESS SISAL PRODUCTION WITH A MINIMUM OF BURDEN ON THE PRODUCERS, BRAZIL, MEXICO, HAITI, TANZANIA, KENYA, ANGOLA, MOZAMBIQUE, AND MADAGASCAR.

2. ANY AGREEMENT ON SISAL HAS TO TAKE INTO CONSIDERATION THE RAPID DISPLACEMENT OF SISAL BY SYNTHETICS IN ITS PRINCIPAL AND UNTIL RECENTLY LARGELY UNAFFECTED END USE, AGRICULTURAL TWINE, AND THE RESULTING CONTRACTION IN THE VOLUME OF WORLD TRADE IN FIBER AND MANUFACTURES HAVE HAD SERIOUS EFFECTS ON EARNINGS AND EMPLOYMENT IN THE MAJOR PRODUCING COUNTRIES IN AFRICA AND LATIN AMERICA. THIS CONTRACTING TREND OF THE WORLD MARKET FOR SISAL AND HENEQUEN CAN BE EXPECTED TO CONTINUE WITH SHRINKING REQUIREMENTS OF AGRICULTURAL TWINES DUE TO THE DEVELOPMENT OF ALTERNATIVE HARVESTING TECHNIQUES, WITH FURTHER DISPLACEMENT OF HARD FIBERS BY SYNTHETICS IN THOSE CORDAGE USES WHERE SYNTHETICS ARE TECHNICALLY SUPERIOR, AND WITH AN INTENSIFIED THREAT BY POLYPROPYLENE BALER TWINES ARISING FROM A CONSIDERABLE EXISTING EXCESS OF AGGREGATE EXTRUSION AND SPINNING CAPACITIES. FURTHER INTERNATIONAL PRICES FOR SISAL ARE PROBABLY UNCOMPETITIVE WITH SYNTHETICS AND AT THE SAME TIME ARE UNREMUNERATIVE TO MANY PRODUCERS. FINALLY, SISAL PRODUCERS ARE USING MORE AND MORE OF THEIR PRODUCTION TO PRODUCE AND EXPORT AGRICULTURAL TWINES WHICH ACCOUNT FOR THE USE OF OVER TWO-THIRDS OF ALL SISAL PRODUCED.

3. STOCKS: PAPER ARGUES THAT NEED FOR RAPID DECISIONS ON STOCK POLICY NECESSITATE INTERNATIONAL STOCKS RATHER THAN COORDINATED NATIONAL STOCK POLICIES. (UNDERSTAND BRAZIL STRONGLY OPPOSES INTERNATIONAL STOCKS. MAJOR SUPPORT COMES FROM AFRICA (ESPECIALLY TANZANIAN). THE MARKET FOR RAW FIBER INDICATES THE NEED TO STOCK TWO TYPES, AFRICAN AND LATIN AMERICAN, AND FOUR GRADES, AFRICAN UG AND 3L AND BRAZILIAN NO. 2 AND NO. 3, AND WOULD BE LOCATED IN PRODUCING COUNTRIES AND MAJOR IMPORT PORTS IN WESTERN EUROPE. MANUFACTURES OF TWINE COULD BE STOCKED AT SELECTED POINTS IN EUROPE AND GREAT LAKES AND CORDAGE IN MEXICO. RAW SISAL WOULD CONSIST OF 70 PERCENT OF THE STOCKS AND MANUFACTURES 30 PERCENT TO LIMITED OFFICIAL USE

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BEGIN WITH, BUT THIS RATION WILL PROBABLY REVERSE ITSELF BY 1980. THERE ARE NO TECHNICAL STORAGE PROBLEMS WITH SISAL AND COST IS ESTIMATED AT 10 PERCENT PER ANNUM OF CAPITAL ACQUISITION COST. WITH TWIN GOAL OF STABILIZING PRICES AND MEETING SYNTHETIC COMPETITION AND COVERING PRODUCER COSTS, THE PAPER SUGGESTS A STOCK OF SOME 150,000-180,000 TONS, THIS IS ALMOST HALF OF WORLD TRADE OF LESS THAN 400,000 TONS IN 1975.

4. EXPORT QUOTAS: WITH SISAL TRADE DECLINING AND PRICES WEAK, THE INTERNATIONAL BUFFER STOCKS WOULD SOON BE OVERFLOWING IF GREAT EMPHASIS WERE NOT PLACED ON EXPORT QUOTAS TO LIMIT PRODUCTION. THIS IS ESPECIALLY TRUE AS END OF DROUGHT IN BRAZIL, END OF DISTURBANCES IN AFRICAN-PRODUCING COUNTRIES, AND HIGHER PRODUCTIVITY MAY AGAIN LEAD TO EMERGENCE OF SUBSTANTIAL SURPLUS. THE PAPER GOLOSSES OVER PROBLEM OF ALLOCATION OF QUOTAS BEYOND HOPING BUFFER STOCK PROPOSAL MAY EASE THIS PROBLEM. IN DISCUSSING QUOTAS PAPER RECOMMENDS INCLUDING ALL SISAL EXPORTS, THAT QUOTAS BE REVISED QUARTERLY, THAT NO PROVISION BE MADE FOR NEW MARKETS, CERTIFICATES AND PENALTIES WILL BE NECESSARY, AND AUTOMATIC LINK AND REDUCTION OF QUOTAS AS EXPORT PRICES DECLINE.

4. PRICES: THE PAPER SUGGEST THE MAXIMUM PRICE LEVEL BE SET AT COMPETITIVE CIF LEVELS WITH SYNTHETIC COMPETITION AND THE MINIMUM PRICE BE SET 20 PERCENT BELOW THIS. QUOTAS WOULD BE REDUCED AT 25 PERCENT BELOW MAXIMUM PRICE. HOWEVER, THE PAPER ADMITS THAT DETERMINING THE COMPETITIVE PRICE LEVEL WILL BE DIFFICULT AND INVOLVE A CONSIDERABLE ELEMENT OF JUDGMENT. THE PRICE DIFFERENTIAL BETWEEN THE VARIOUS GRADES OF SISAL AND THEN PRICE DIFFERENTIAL BETWEEN RAW SISAL AND SISAL MANUFACTURES FURTHER INCREASE THE PRICING PROBLEM. THIS LATTER DIFFERENTIAL IS ESTIMATED BY CONSUMERS AT \$200-220 A TON BUT THIS PAPER CUTS THIS TO \$170 WHICH WILL FURTHER SQUEEZE THE EUROPEAN MANUFACTURERS AND STIMULATE THE ORDERLY EXPANSION OF MANUFACTURING FACILITIES IN FIBER-PRODUCING COUNTRIES. THE PAPER SOLVES MEETING THE PRICING PROBLEMS BY FREQUENT ASSESSMENTS OF PRICES, STOCKS, AND QUOTAS AND UNDERLINES THE NEED FOR MUCH MORE INFORMATION, ESPECIALLY ON PRODUCTION COSTS OF SISAL AND COMPETITIVE SYNTHETICS.

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5. THE PAPER FORESEES TWO TYPES PRODUCTION ADJUSTMENT. FIRST INVESTMENT TO REDUCE PRODUCTION COSTS AND SECOND DIVERSIFICATION MEASURES TO ASSIST MOVE OUT OF SISAL PRODUCTION IN HIGH-COST AREAS.

6. COST: ASSUMING AVERAGE ACQUISITION COSTS OF \$500 PER TON FOR TWINE AND \$330 PER TON FOR FIBER, THE CAPITAL ACQUISITION COSTS ARE ESTIMATED AT \$70-77 MILLION. THE ANNUAL STORAGE COSTS ABOUT \$7-8 MILLION. PRODUCTION ADJUSTMENT COSTS, CAPITAL INVESTMENT AND REPLACED FOREIGN EXCHANGE EARNINGS FOR DIVERSIFICATION OUT OF SISAL OF 50,000 TONS WOULD BE \$80 MILLION AND OF A 100,000 TONS \$160 MILLION.

7. UNDER OTHER SUPPLEMENTARY MEASURES THE PAPER SUGGESTS BETTER MARKETING CHANNELS WITH DIRECT LINKS TO PRODUCERS, TRADE LIBERALIZATION ON TWINE, AND A RESEARCH AND DEVELOPMENT EFFORT. ON TRADE LIBERALIZATION THE PAPER NOTES US ZERO DUTIES, BUT POINTS UP PROBLEM OF EEC 13 PERCENT DUTY ON TWINE FROM NON-ASSOCIATED COUNTRIES I.E. LATIN AMERICA. PAPER ALSO NOTES PROBLEM OF SUBSIDIES WHICH DISTORT TRADE. TRADE ISSUES ARE LEFT TO MTN NEGOTIATIONS. THE PAPER DOES NOT RAISE PROBLEMS OF SHIPPING RATES OR REAREST RESTRICTION ON SYNTHETICS PRODUCTION OR RESEARCH.

8. COMMENT: FAO/UNCTAD PAPER IS QUITE DISCOURAGING ON FUTURE OF SISAL TRADE WHICH WAS 600,000 TONE IN 1974, LESS THAN 400,000 IN 1975 AND MAJOR ELEMENT OF SISAL AGREEMENT SEEMS TO BE AIMED AT CUTTING BACK PRODUCTION ANOTHER 50-000-100,000 TONS. TO EASE THIS ADJUSTMENT THE PAPER LIBERALLY DIPS INTO PROPOSED BOTTOMLESS COMMON FUND. IF FUND ISN'T CREATED, THEN WHOLE AGREEMENT FALLS APART, BUT ALL THROUGH PAPER AND IN FIVE-PAGE ANNEX ARE COMMENTS ON WHAT FAO HARD FIBERS GROUP SUCCEEDED IN DOING IN 1968-70 WITHOUT ANY EXTERNAL FINANCIAL ASSISTANCE. VOLPE

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